

Gary A. Jeffries
Senior Counsel

Dominion Retail, Inc.
1201 Pitt Street, Pittsburgh, PA 15221
Phone: 412-473-4129 Fax: 412-473-4170
Email: gjeffries@dom.com



Dominion™

January 10, 2005

BY OVERNIGHT MAIL

Mary Cotrell, Secretary
Massachusetts Department of
Telecommunications and Energy
One South Station
Boston, MA 02110

Re: Docket No. 04-115: Initial Comments of Dominion Retail, Inc.

Dear Secretary Cotrell:

Enclosed for filing with the Massachusetts Department of Telecommunications and Energy ("Department") are an original and ten (10) copies of the Initial Comments of Dominion Retail, Inc. in the above-referenced docket.

This filing was also filed electronically with the Department today by e-mail at dte.efiling@state.ma.us and to jeanne.voveris@state.ma.us.

If you have any questions, please do not hesitate to contact me.

Respectfully submitted,

Gary A. Jeffries
Senior Counsel

Enclosures

**COMMONWEALTH OF MASSACHUSETTS
BEFORE THE
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY**

Procurement of Default Service Power Supply)	
For Residential and Small Commercial and)	D.T.E. 04-115
Industrial Customers)	

INITIAL COMMENTS OF DOMINION RETAIL, INC.

Dominion Retail, Inc. ("Dominion Retail" or the "Company") hereby respectfully submits these Initial Comments concerning the procurement of default service power supply in Massachusetts pursuant to the request for comments issued by the Department of Telecommunication and Energy ("Department") in its December 6, 2004 order in the above-referenced docket.

Dominion Retail obtained its license to operate as an electric supplier in the Commonwealth of Massachusetts in July 2001 at DTE Docket No. CS-032. Dominion Retail began serving customers in the Commonwealth beginning in 2002. As in other states in which it operates, Dominion Retail's primary focus in Massachusetts is on the residential and small commercial electric choice market. Currently, Dominion Retail serves a total of approximately 11,000 residential and small commercial electricity customers on the Western Massachusetts Electric, Massachusetts Electric, and NStar systems in Massachusetts.

Given Dominion Retail's significant and long-term investment and involvement in the evolving retail electric choice marketplace in Massachusetts, Dominion Retail has a direct and considerable stake in the Department's consideration of default service

power supply procurement issues. For this reason, the Company respectfully submits that its comments on these matters warrant a close and careful reading.

Introductory Comments

Dominion Retail appreciates the efforts the Department has undertaken over the past several years to remove barriers to the development of an active retail competitive market in Massachusetts. However, there still remain regulatory obstacles that inhibit the Commonwealth's consumers from garnering the full benefits of retail electricity competition. Removal of these barriers would do a great deal to allow the retail market to grow as it has in other states that have clearly resolved to make the retail environment a healthy one. The most significant impediment is the failure of default prices to appropriately reflect the entirety of actual market costs associated with providing service to default consumers. This lack of completeness distorts the competitive landscape since it leaves shopping customers unable to adequately compare how prices available from competitive suppliers really stack up to the utility's own default service. In Dominion Retail's view, the Department should act decisively, and promptly, to remedy this situation. In addition, the Company has several additional recommendations as described in these comments. Altogether, we believe these actions will provide a much-needed stimulus for retail electricity customer choice in Massachusetts.

Dominion Retail's Responses to the Department's Specific Questions:

- 1) Would smaller customers be better served if power supply for default service is procured using a portfolio of more than two solicitations? Please discuss the advantages and disadvantages of increasing the number of solicitations used to procure default service supply.**

As a threshold matter, default service should be viewed as provider of last resort (POLR) service rather than as a service designed expressly to compete with competitive retail suppliers. As such, default service should be structured to reflect current market conditions as closely as possible. With this principle as a backdrop, Dominion Retail's view is that the best approach to default supply pricing would be to institute monthly variable pricing that follows some type of market index or formula. Under such an arrangement, consumers would have a more "real time" means of comparing the pricing alternatives available to them in the market, including the default service offered by the utility and those offered by competitive suppliers such as Dominion Retail.

Dominion Retail does not favor the two-per year default supply solicitation procedure proposed by the Department. To our mind, carving the year into two in this manner runs counter to the realities of both supply pricing and consumer behavior; neither the sellers or buyers of energy tend to view the world on a six-month plane. The unnatural nature of the six month planning horizon would tend to increase supply costs—which in the end are borne by consumers—and would lead to greater customer confusion.

- 2) Would smaller customers be better served if power supply for default service was procured for a term longer than twelve months? Please discuss the advantages and disadvantages of using supply terms greater than twelve months. In particular, please discuss:**
- a. whether longer contract terms are likely to produce lower prices.**
 - b. how such an approach would affect price certainty and market efficiency, and**

c. how such an approach could be tailored to accommodate customer migration to competitive supply.

Longer-term contracts are no guarantee of lower prices and, in fact, could lead to consumers paying higher prices depending on the timing that supply prices are locked in. Indeed, though long-term fixed prices provide price certainty, longer does not necessarily equate to lower. While there are sophisticated risk management and forecasting tools available that can help mitigate price variability risk over time, one cannot conclude that longer term bids will always result in lower prices. In the end, prevailing market forces will control.

As noted in Dominion Retail's response to Question 1 above, we believe the most efficient market pricing would be a short-term monthly formula or index. Alternatively, another option is to fix default prices for no more than a 1 to 2 year period, thus providing consumers a clear competitive frame of reference for a relatively condensed period of time while not straying unreasonably long from the real time, market-based standard that should be the touchstone for default pricing. As we noted previously, a six month default planning horizon offers no such advantages, since such an arrangement does not reflect current market realities nor does it allow the consumer to compare other retail fixed priced offers for the typical, one-year term that is most common in the retail choice marketplace.

In order to accommodate customer migration to competitive supply, the Department should consider the concept of a retail auction that would allow competitive retail suppliers with risk management skills the ability to offer consumers long-term fixed price contracts. As for the structure of the auction, Dominion Retail submits that the Department should resist the pressure to adopt a

wholesale auction model as used in some other states. Wholesale auctions are problematic largely because participating utilities tend to “bury” retail-related costs within their distribution rates, thus skewing the true price of utility default service. This “one size fits all” approach is inconsistent with consumer choice and needs. Our fear that if this type of procurement system is adopted in Massachusetts, then, as in those other states where the wholesale auction model has been followed, the chances for the development of a robust retail market for small customers in Massachusetts will be greatly jeopardized.

In order for the retail market to develop via customer migration one of two events must occur. In one case, the default service prices must reflect *all* retail costs, such as those incurred for bad debt, customer acquisition and service, EDI data exchange, compliance with consumer protection, environmental disclosure, database investment and maintenance, customer attrition, and other miscellaneous licensing and assessment costs. Alternatively, default pricing can be accomplished via a retail auction wherein suppliers include these retail costs in their auction bid prices to consumers. A key pro-competitive advantage of retail auctions is that participating suppliers may be able to realize significant customer acquisition cost savings via the auction, which in turn can be passed on to consumers in the form of lower electricity prices. This type of retail auction has been used successfully by PECO in Pennsylvania.

- 3) Would small customers be better served if power supply for default service was procured on a statewide basis? Please discuss the advantages and disadvantages of using a statewide approach to default service procurement.**

Dominion Retail's view is that a state-wide approach to the procurement of default service supply is preferable. It would appear to be a more efficient and lower cost method than developing different processes and regulations (such as creditworthiness) on a utility-by-utility basis. More suppliers are also likely to participate if there are uniform rules across the state. This being said, however, innovative approaches to the administration of default service procurement should not be sacrificed simply for the sake of uniformity.

- 4) Would smaller customers be better served if power supply for default service was procured using an auction process (e.g., descending clock) rather than through requests for proposals? Please discuss the advantages and disadvantages of using an auction process to procure default service. In particular, please discuss whether using an auction is likely to produce lower default service prices.**

Dominion Retail submits that a retail auction, as opposed to a wholesale auction, is more likely to meet the needs of consumers since it is more likely to lower costs and risks of default service procurement over the long run. Last year Rep. Dan Bosley and Sen. Michael Morrissey drafted a legislative proposal for a retail auction that would provide an aggregation process that allows suppliers to lower their costs (and subsequent prices) and offer consumers more and better choices.

Additionally, a retail auction would significantly reduce acquisition costs for retail suppliers and allow suppliers to share those savings with consumers. An immediate economy of scale would promote long-term market investment and create competition and consumer benefits. High acquisition costs are the single largest retail hurdle for mass-market suppliers and result in a distortion of rates between default service prices and those of competitive retail suppliers. This

retail auction process would also educate consumers about true retail market costs and opportunities. Some alternative concepts like “smoothing” prices to prevent price volatility are artificial mechanisms that prevent accurate price signals from being sent to consumers and also prevent retail suppliers from competing. Some of these alternative auction approaches are merely wholesale auctions in disguise.

Dayton Power & Light Company (“DP&L”) in Ohio has recently solicited opinions from its customers about their interest in participating in a retail auction. According to the Office of the Ohio Consumers’ Counsel, in just the first month, 65,000 customers (1 percent) expressed an interest in this pilot program. Consumers were afforded the opportunity for “opt in” to participation in a process supported by the utility, the Office of Consumer Counsel, the Public Utility Commission, and competitive suppliers. Consumers who participate in this program are guaranteed a savings compared to the utility’s rate with a supplier contract term of at least two years. New York has also recently adopted policies designed to encourage customer migration. Dominion Retail recommends that the Department give serious consideration to creative proposals like those being utilized at DP&L and in New York that could benefit consumers in Massachusetts.

The current default procurement program in Massachusetts that provides for changing prices every six months prevents this type of opportunity for its consumers who undoubtedly would find it difficult to compare a changing six-month default price with a longer-term fixed auction price. As noted previously, the Department should consider adopting either a monthly variable default price

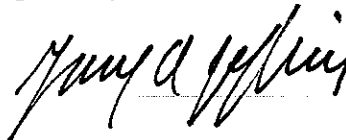
or a 1-2 year fixed price that is easily comprehensible to consumers and that will allow them the ability to compare their default price with other alternatives in the marketplace.

- 5) **Although the term “default service” is statutory, G.L. c. 164, Sec. 1, it has confused some customers because of its unintended suggestion of nonfeasance in performing a legal or contractual obligation. Is there some better or more descriptive term that ought to be used by the distribution companies on and after March 2005?**

In view of the fact that standard offer service is about to expire, it may be more appropriate, and less confusing, to rename this type of service. Dominion Retail recommends that a term like “Provider of Last Resort” (POLR) be used to better define the type of service being provided by a utility in a competitive retail market environment.

In conclusion, Dominion Retail appreciates having had the opportunity to comment in this proceeding and respectfully requests that the Department carefully consider its comments.

Respectfully submitted,



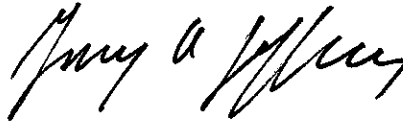
Gary A. Jeffries
Senior Counsel
Dominion Retail, Inc.
1201 Pitt Street
Pittsburgh, PA 15221
412-473-4129
412-473-4170 (fax)

January 10, 2005

CERTIFICATE OF SERVICE

I hereby certify that on this day I served the foregoing document and ten (10) copies to Secretary Mary L. Cottrell, Department of Telecommunications and Energy, by overnight mail. I also served this filing via electronic mail to dte.efiling@state.ma.us and to jeanne.voveris@state.ma.us .

Dated at Pittsburgh, PA this 10th day of January 2005.

A handwritten signature in black ink, appearing to read "Gary A. Jeffries", is written over a horizontal line.

Gary A. Jeffries